

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-03 COME-00 DODE-00 FEAE-00 FPC-01 H-03 INR-11

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 IO-14 SAJ-01

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FM AMEMBASSY BERN

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PASS CEA FOR FELLNER; TREASURY, FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: INTERNATIONAL AND SWISS FINANCIAL SITUATION

1. SUMMARY. CEA MEMBER FELLNER AND ECONOMIC/COMMERCIAL COUNSELOR MET IN ZURICH AUGUST 14 WITH SWISS NATIONAL BANK (SNB) PRESIDENT LEUTWILER; SENIOR OFFICIALS OF THREE MAJOR SWISS BANKS; AND SENIOR PARTNER LEADING PRIVATE BANK (HANS BAR). SUBJECTS DISCUSSED INCLUDED VIEWS OF SWISS BANKERS RE ITALY AND EURO MARKETS (REPORTED BY SEPTELS); REACTION TO US ECONOMIC POLICY; INVESTMENT INTENTIONS OF OIL PRODUCERS; EFFECTS OF US PRIVATE GOLD OWNERSHIP; AND SWISS ECONOMIC SITUATION. END SUMMARY.

2. BOTH SNB AND COMMERCIAL BANKERS EXPRESSED VERY POSITIVE REACTION TO STATEMENTS BY PRESIDENT FORD RE US ECONOMIC POLICY, PARTICULARLY COMMITMENT TO SLOWING

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INFLATION. NOTING IMPORTANCE US ECONOMY AND FINANCIAL

MARKETS TO SWITZERLAND, BANKERS QUESTIONED FELLNER AT LENGTH RE PROBABLE DEVELOPMENTS, SHOWING PARTICULAR INTEREST IN MERCHANDISE TRADE AND BALANCE OF PAYMENTS PROSPECTS AS WELL AS INTEREST RATE AND UNEMPLOYMENT PROJECTIONS. THEY EXPECT RECENT STRENGTHENING OF DOLLAR TO CONTINUE AND ACKNOWLEDGED THEY WATCH RELATIVE INTEREST RATE DEVELOPMENTS PARTICULARLY CLOSELY. WHILE AGREEING RE DESIRABILITY HALT US INFLATION, BANKERS EXPRESSED HOPE THAT EXPORT CONTROLS ON AGRICULTURAL PRODUCTS WOULD NOT BE INTRODUCED.

3. IN DISCUSSING INVESTMENT PATTERN OF OIL PRODUCERS, BANKERS NOTED THAT PRODUCERS AND THEIR FINANCIAL ADVISERS ARE SOPHISTICATED AND VERY CAUTIOUS. MIDDLE EASTERN CLIENTS GENERALLY INSIST THAT FUNDS BE PLACED IN RISKLESS ASSETS AND ARE INTERESTED ONLY IN RETAINING RATHER THAN INCREASING REAL VALUE OF CAPITAL. FOR THESE REASONS THEY THOUGHT FUNDS WOULD INCREASINGLY FLOW TO US, PARTICULARLY FROM UK DESPITE SPECIAL STERLING AND DOLLAR MEDIUM TERM UK ISSUES. ONE BANKER EXPRESSED CONSIDERABLE SKEPTICISM AS TO WHETHER OIL PRICES WILL SIGNIFICANTLY DECLINE AND THOUGHT WORLD SHOULD OPERATE ON ASSUMPTION THAT ROUGHLY PRESENT PRICE WOULD PREVAIL FOR FORESEEABLE FUTURE. ONE BANKER ALSO THOUGHT THAT GIVEN FINANCIAL STRENGTH OIL PRODUCER COUNTRIES IT WAS APPROPRIATE AND DESIRABLE THAT THEY BE GIVEN OPPORTUNITY SHARE IN MANAGING INTERNATIONAL MONETARY SYSTEM.

4. WHILE READILY ADMITTING THEIR LONG-STANDING BIAS IN FAVOR GOLD PARTICULARLY IN PERIOD WHERE CURRENCIES DEPRECIATED BY INFLATION, MOST BANKERS THOUGHT THAT PRIVATE OWNERSHIP OF GOLD BY AMERICANS WOULD RESULT IN RATHER MORE DEMAND THAN IS GENERALLY ASSUMED. THEY ACKNOWLEDGED THAT MANY FEEL THAT FOR HISTORICAL REASONS US CITIZENS WOULD NOT FIND GOLD ATTRACTIVE ASSET BUT ON BASIS MANY LETTERS AND OTHER EXPRESSIONS OF INTEREST FROM ACTUAL OR PROSPECTIVE AMERICAN CLIENTS THEY ANTICIPATED FAIRLY STRONG INITIAL ORDERS FROM US. BANKERS ALSO NOT CONVINCED US WILL BE PREPARED SURRENDER ITS MONETARY GOLD TO PREVENT EXCESSIVE PRICE RISES OR THAT LIMITED OFFICIAL USE

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ANY OTHER CENTRAL BANK WOULD DO SO. THEY CLAIM NO CENTRAL BANK SALES NOTED TO DATE.

5. VIEWS EXPRESSED ON GOLD WERE, HOWEVER, NOT UNIFORM. ONE BANKER NOTED THAT EVEN IF MORE THAN STRONG INITIAL DEMAND FROM US CITIZENS SHOULD OCCUR, WHICH HE WAS INCLINED TO DOUBT, MARKET WOULD FIND GREAT DIFFICULTY ACCOMMODATING INCREASED ORDERS. WHILE INDUSTRIAL USES

HAVE DROPPED, SO HAS PRODUCTION. HE ESTIMATED SOUTH AFRICA SALES WERE DOWN 20 PERCENT WHILE USSR CONTINUES TO SELL PRIMARILY ACCORDING TO NEED. CURRENT PRIVATE HOLDERS OF GOLD AND POTENTIAL SELLERS ARE MOSTLY PRIVATE SPECULATORS WHO WOULD BE RELUCTANT IN HIS OPINION SELL UNTIL PRICE ROSE TO DOLLARS 200 RANGE--A PRICE TREND MANY SWISS BANKERS READILY PREDICT. BUT IN ANY EVENT GOLD MARKET IS VERY THIN AND VOLATILE.

6. LEUTWILER AND LADEMANN OF SNB PREDICTED THAT SWISS CURRENT ACCOUNT FOR 1974 WILL BE EITHER IN EQUILIBRIUM OR SHOW SLIGHT SURPLUS COMPARED WITH SMALL DEFICIT EXPECTED FEW MONTHS AGO. THEY DOUBTED SWISS INFLATION WOULD BE UNDER CONTROL BEFORE SECOND HALF OF 1975 DESPITE MONETARY RESTRAINT AND OTHER MEASURES BECAUSE OF PRICE PRESSURES ALREADY IN PIPELINE. IN OPINION SNB LARGE PART CURRENT SWISS INFLATION PROBLEM AND PRESSURE FOR INCREASED BANK FINANCING ARISE FROM CONTINUED STRONG DEMAND FOR SWISS EXPORTS, PARTICULARLY PRODUCER GOODS, AS WELL AS NEED FINANCE HIGHER COST OF RAW MATERIAL IMPORTS.

7. SNB OFFICIAL THOUGHT GOVERNMENT ESTIMATES OF 1.4 PERCENT REAL GNP GROWTH FOR 1974 WERE REASONABLE AND THAT ECONOMY IS SLOWING WITH CLOSE TO ZERO RATE LIKELY BY FOURTH QUARTER. LEUTWILER WAS CONFIDENT VARIOUS LEVELS OF GOVERNMENT WOULD SUCCEED IN EFFORTS REDUCE DEFICITS SINCE SNB IS DETERMINED PERMIT ONLY VERY MODEST AMOUNT LONG-TERM GOVERNMENT BOND ISSUES, WHILE SHORT AND MEDIUM TERM LOANS RESTRAINED BY INDIVIDUAL BANK LENDING CEILINGS. PERCIVAL

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